THE OFFICE OF REGULATORY STAFF

DIRECT TESTIMONY

OF

MATTHEW P. SCHELLINGER, II

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DOCKET NO. 2018-4-G

ANNUAL REVIEW OF PURCHASED GAS ADJUSTMENT AND GAS PURCHASING POLICIES OF PIEDMONT NATURAL GAS COMPANY, INC.

DIRECT TESTIMONY OF
MATTHEW P. SCHELLINGER II
ON BEHALF OF
THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF
DOCKET NO. 2018-4-G
IN RE: ANNUAL REVIEW OF PURCHASED GAS ADJUSTMENT AND GAS PURCHASING POLICIES OF PIEDMONT NATURAL GAS COMPANY, INC.

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Matthew P. Schellinger II. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina, 29201. I am employed by the Office of Regulatory Staff ("ORS") in the Utility Rates and Services Division as a Regulatory Analyst.

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I received a Bachelor of Science Degree with a major in Accounting from the University of South Florida in 2012. I received a Master of Business Administration with a focus in Management and Strategy from Western Governors University in 2016. From 2007 to 2013, I was employed as a controller for an insurance agency. In that capacity, I performed general corporate accounting functions on a daily and monthly basis. In February 2013, I began my employment with ORS as an Auditor. In May 2016 I joined the Utility Rates and Services Division as a Regulatory Analyst. I have previously testified before the Public Service Commission of South Carolina ("Commission") on gas, water, and wastewater matters.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to present ORS's findings regarding the review and examination of the purchasing policies of Piedmont Natural Gas Company, Incorporated ("Piedmont" or "Company"), including the hedging program, the administration of their Commission-approved Gas Cost Recovery Mechanism ("GCRM") tariff, and Piedmont's capacity and supply capabilities for the upcoming winter.

Q. WHAT IS THE REVIEW PERIOD FOR THIS PROCEEDING?

A. The review period is the twelve-month term of April 1, 2017 through March 31, 2018 ("Review Period").

Q. PLEASE DISCUSS PIEDMONT'S PURCHASING PRACTICES.

A. Piedmont contracts with several interstate pipeline companies for transportation capacity, storage service, and liquefied natural gas ("LNG") peaking service. Piedmont also purchases commodity supply from producers and marketers to both meet the needs of its firm customers on a peak design day as well as to meet the annual usage requirements of all its customers.

Q. PLEASE DESCRIBE PIEDMONT'S CAPACITY AND SUPPLY CAPABILITIES FOR THE REVIEW PERIOD USING THE COMPANY'S UPDATED DESIGN DAY CALCULATION.

A. For the Carolinas, Piedmont had firm send out capacity capability available for the FY2018 Firm Design Day. The capacity portfolio to meet this demand included firm transportation contracts on the interstate gas pipeline systems of Transco, Columbia Gas, and East Tennessee. Also, the Company had storage service available from Hardy Storage, Dominion, Columbia Gas, and Transco. In addition, Piedmont had its two LNG peaking facilities located in Huntersville and Bentonville, North Carolina as well as contracted LNG peaking service with Transco. These sources were available to inject additional natural gas into its system, when needed, to balance supply with the Company's system load requirements.

Piedmont purchased gas supply under a diverse portfolio of contractual arrangements with gas producers and marketers. Under the firm gas supply contracts, Piedmont paid market-based commodity prices tied to indices published in nationally recognized industry publications such as Platts Gas Daily Market Fundamentals. Piedmont also purchased gas supplies in the spot market under contract terms of one month or less.

Q. WERE PIEDMONT'S CONTRACTED CAPACITY AND SUPPLY CAPABLIITES SUFFICIENT TO MEET THE REQUIRMENTS OF ITS FIRM CUSTOMERS?

A. Yes. For the Review Period, ORS's examination indicated the Company had adequate firm assets, by way of capacity and supply contracts, to meet its firm customers' requirements. ORS recommends that the Company continue to monitor its firm capacity and supply capabilities, regarding future demand on the system as well as changes being experienced in the natural gas industry.

Q. DID PIEDMONT PRUDENTLY PURCHASE GAS CAPACITY AND SUPPLY TO MEET THE REQUIREMENTS OF ITS CUSTOMERS?

A. Yes. The Company used what is called a "best cost" gas purchasing policy. This policy consists of five (5) main components: price, security, flexibility, supplier relations, and deliverability. These components are interrelated and weighted based on their importance. Piedmont has been active in purchasing supplies directly in the market and arranging through interstate pipelines for capacity required for the transportation, delivery, and storage of these supplies. Piedmont continues to secure reasonable contract terms through negotiations. Piedmont has been active in the Federal Energy Regulatory Commission ("FERC") proceedings concerning interstate transportation and storage rate changes, as well as other issues concerning the FERC regulated interstate pipeline companies.

Q. WHAT ARE THE RESULTS OF PIEDMONT'S HEDGING PROGRAM FOR THE REVIEW PERIOD?

A. For the Review Period, the Company's hedging program for South Carolina operations resulted in a net economic cost of $941,030.20, recorded in the Company's deferred account. ORS determined that Piedmont operated its hedging activities in compliance with the Commission approved hedging program and has no recommendations to change the Company's current hedging program.

Based upon ORS's review and examination, ORS confirmed that the:

1) Percentage of volumes hedged was no greater than forty-five percent (45%) of annualized sales volumes;
2) Time period for which the hedges were purchased was no greater than twelve (12) months;
3) Hedging tool used was a call option;
4) Amount paid to purchase the options, referred to as the premiums, were no more than the plan's approved percentages of 4% to 6% of the applicable NYMEX futures price;

5) Strike price of the call options purchased were secured at the prevailing market prices or lower; [Note: The strike price is the price the option holder must pay to exercise the option.]

6) Costs of the hedging program were properly recorded; and,

7) Company filed monthly reports with the Commission and ORS providing the results of the hedging program.

Q. DID ORS REVIEW THE COMPANY'S FORECASTED FIRM DESIGN DAY REQUIREMENT FOR THE UPCOMING 2018-2019 WINTER SEASON AND THE COMPANY'S STEPS TO MEET THIS REQUIREMENT?

A. Yes. ORS reviewed and examined the Company's forecasted Firm Design Day requirement for the upcoming 2018-2019 winter season and the measures the Company is taking to ensure the reliability of the capacity and supplies. Piedmont has taken steps to secure firm capacity and supply for future demand on its system. These steps include contracting with interstate pipelines for capacity on their systems, acquiring storage capacity, LNG capabilities and negotiating contracts with suppliers. Upon review of projections of Piedmont's Carolinas Firm Design Day requirement and the assets currently in place to satisfy this requirement, ORS finds Piedmont's plan for the 2018-2019 winter season to be reasonable.

Piedmont has an obligation to maintain adequate supplies at just and reasonable costs to serve its customers. Based on our review of information provided by Piedmont, ORS finds that the Company is prepared to meet its obligation. For future planning periods, ORS recommends that the Company continue its practice of monitoring its firm transportation, storage, supply and LNG capabilities based upon its forecasted firm demand and continuing changes in the natural gas industry.

Q. PLEASE DESCRIBE PIEDMONT'S APPROVED GCRM.

A. Piedmont's GCRM is designed to permit the Company to recover the prudently incurred actual cost of gas from its customers. The actual cost of gas consists of two components: a Demand cost of gas and a Commodity cost of gas. The Demand component includes all capacity charges for the transportation and storage of gas. The Commodity component is comprised of charges for the volumes of gas purchased. The GCRM provides that Piedmont establish a Benchmark Commodity Cost of Gas which is the Company's estimate or forecast of the City Gate Delivered Cost of Gas for gas supplies, excluding Demand Charges. The GCRM provides for the recording of the monthly differences between the actual cost of gas purchased and the rate billed to the customer, to the Company's Deferred Account.

Q. DOES PIEDMONT'S APPROVED GCRM ALLOW FOR ADJUSTMENTS TO THE BENCHMARK COMMODITY COST OF GAS?

A. Yes. The Benchmark Commodity Cost of Gas may be adjusted to recognize changes in the billing factor for the amount to be recovered. These requests are filed with the ORS for review and the Commission for approval. The GCRM also allows for the same type adjustment for the Demand Cost of Gas Component, although the Demand Component does not change as frequently as the Commodity Cost of Gas Component.

Q. WHAT IS THE CURRENT BENCHMARK COST OF GAS INCLUDED IN THE COMPANY'S RATES?

A. The current Benchmark Commodity Cost of Gas, GCRM-145, included in the Company's rates is $2.75 per dekatherm, which became effective with the first billing cycle of February 2018. ORS does not recommend any change to the Benchmark Commodity Cost of Gas.

Q. DID THE COMPANY ADMINISTER ITS GCRM DURING THE REVIEW PERIOD IN ACCORDANCE WITH THE COMMISSION APPROVED TARIFF?

A. Yes.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.